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## CURRENT SUPPORT BRIEF

SOVIET PROPOSALS FOR IMPROVING ECONOMIC PLANNING

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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SOVIET PROPOSALS FOR IMPROVING ECONOMIC PLANNING

A conference dealing with problems of improving economic planning was held 14-18 March under the auspices of the central long-term planning agency of the USSR, the State Scientific-Economic Council (Gosekonomsovet). 1/ The major proposals advanced at the meeting were concerned with better indicators of industrial achievement, better planning of integrated industrial development by major economic region, and greater continuity in the planning process. 2/

All three of these problems have been under discussion for several years, and each has proved resistant to ready solution. The use of physical units in planning and reporting industrial activity has been an indispensable tool of central economic guidance, but no way has been found to compensate fully for its tendency to discourage economy in the use of materials and the introduction of more effective types of products. The use of two value indicators of the volume of industrial output for each enterprise has represented a considerable reporting chore and has not provided planners a fully satisfactory measure of the actual volume of work performed in the different branches of industry. The planning of integrated industrial development of major economic regions has been frustrated continually by an economic administrative structure which either has cut across the lines of economic regions, as in the case of the former ministries organized along branch-of-industry lines, or has broken the economic regions into small units, as in the case of the present 101 Councils of National Economy (Sovnarkhozes) organized along political administrative lines. Practical limitations on the time span for which detailed operational plans can be drawn up has hampered attempts to obtain greater precision in long-range planning, and the discontinuous nature of plans has sometimes been hard to reconcile with the aim of uninterrupted production.

On the first two of these problems--improvement of plan indicators and better integrated regional development--the July 1960 plenum of the Party central committee ordered the Gosekonomsovet, with the help of other planning, scientific, and economic administrative organizations, to work out proposals by 1 March 1961 for submission to the USSR Council of Ministers. Hope was expressed at the plenum that better indicators of production achievements would make for more effective use of investment and operating funds, closer adherence to plans for variety and quality of product, and closer attention to costs of production; and that improved regional planning would encourage a more rational development of industrial specialization and cooperation. 3/

The third problem--greater continuity in planning--was set forth in detail by Khrushchev at a May 1957 session of the Supreme Soviet. Although this problem was not specifically included in the July 1960 plenum assignments, one step toward its solution--a continuously operating 5-year plan--was recognized as necessary by the USSR Council of Ministers at a 24 December 1960 meeting, and the problem was included in the agenda of the March 1961 planning conference. Greater continuity in planning, according to Khrushchev, would avoid interruptions of work schedules in the transition from one plan period to another, make better provision for activities extending over several plan periods, and ensure that new plans incorporate both the developments and commitments of preceding plan periods and the anticipated requirements of future periods. 4/

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Industrial Indicators

The conference recommended that the use of physical indicators of the volume of production be improved by a more selective application of indicators to specific products to reflect more closely the natural and use characteristics of the articles concerned. Thus, indicators of the productivity of machines and equipment produced by the machine-building industry would be used in preference to weight indicators alone, and the percentage of new items in the total volume of production would be reported. These proposals, if adopted, would shift emphasis from a weight criterion, wasteful of resources, to one that would tend to encourage new products, an essential element of the current program for raising the level of technology in industry. Other instances, equally obvious, were cited where a more appropriate selection of indicators would correct some of the shortcomings of existing practice, such as the use of a square meter calculation as well as weight in paper production, and inner and outer diameters in addition to weight in pipe production. The lack of originality in these proposals makes them no less promising in an area where performance criteria always have been strikingly inadequate.

The conference directed major attention to the problem of improving the use of value indicators of the volume of production.\* It was recommended that the statistic "gross production" (valovaya produktsiya), charged with causing fundamental defects in the labor productivity index, 5/ should be retained only in annual reports. For general use throughout industry, the statistic "commercial production" (tovarnaya produktsiya) was recommended, in current prices for short-term planning and in constant prices for long-term planning. In fact, "commercial production" as currently defined differs only in minor fashion from the statistic "gross production."\*\*

Other recommendations, if adopted, would work toward greater economic efficiency. To keep watch over the use of fixed capital equipment, the use of capital-output ratios was proposed, and to encourage proper care of machinery, it was proposed that any unamortized value of replaced items be charged to enterprise current costs and excess amortization be deposited to funds for modernization of equipment. Another proposal would provide greater material rewards for fulfilling high plan obligations than for overfulfilling lesser ones. Designed to help reduce the tendency of lower echelons to strive for minimum assignments, this device is already in use in Poland.

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\* For a more complete discussion of these value indicators see CB-61-32.

\*\* Until recently, commercial production has consisted of marketable product, marketable services, and capital repair work on own equipment and means of transport. By recent redefinition, as revealed at the conference, it now includes any change in the value of unfinished production in industries with long production cycles such as machine-building, and in some of the food and light industries, the value of semi-fabricates produced for own use, e.g. raw sugar. Thus, the commercial production statistic recommended by the conference differs from gross production only in that the latter also includes the value of materials used in work done for others on materials supplied by others and, in some industries, the amount of change in stocks of intermediate products and special instrumentation.

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Continuity of Plans

Some of the arrangements discussed at the conference for providing continuity in the planning process actually have been in operation for several years. The division of the long-range plan into detailed annual segments, with each segment hopefully requiring only a few revisions to incorporate new needs and capabilities, was introduced in 1959 as a feature of the Seven-Year Plan, and the timing of the planning process was shifted several years ago to provide enterprises with approved annual plans at the start of the plan period rather than some months later, as frequently happened in the past.

Apparently the task of transforming annual segments of the long-range plan into fully operational annual plans has proved to be a greater chore than envisioned earlier, or perhaps the unrevised segments for forthcoming years have not provided enough guidance to give the desired continuity in annual plans. In any event, the recommendation of the conference that adjustments be made at all planning levels two years ahead for the whole range of plan indexes will force planners to look a little farther ahead in elaborating the plan for the coming year. Similarly, the working out each year of the major indexes for production and capital construction for the year lying five years ahead will force the planners to look beyond the current planning period. This practice, combined with the commencement of work on the next long-term plan midway through the current one, should avoid some of the discontinuities which have disturbed Soviet leaders, but whether or not it will greatly improve the quality of the plans is debatable. The conferees, apparently with some reservations on this point themselves, stressed the importance of increasing the size of reserves of material resources and capital investments, so that unforeseen requirements might be met without disrupting plans.

Regional Planning

The conference stressed the present lack of coordination in planning among both the 13 large economic regions and the 101 economic administrative regions, but pointed out that coordinating economic councils for the large economic regions, would be able to prepare recommendations for integrating the development of these regions and for planning the pattern of specialization and cooperation of enterprises in contiguous sovnarkhozes. The conference made no further comment on this aspect of coordinating economic development beyond revealing the continuing intention of creating the coordinating councils. Detailed plans for their establishment were published in mid-1960 <sup>7/</sup> and on 28 May 1961 the Soviet press disclosed that the 13 large economic regions have been re-divided into 17 and that councils were being created for each with the exception of Kazakhstan where the existing agencies are to suffice. <sup>8/</sup>

The conference recommendations for improving regional planning centered upon greater use of planning balances, not only in the union-republics but in all economic regions of the country. <sup>9/</sup> The conference stressed the necessity of working out an easy method of constructing regional tables of inter-industry balances and a system of indexes which would reflect the levels of productive specialization and development of each region. Toward this end, it was proposed that the Central Statistical Administration improve its collection of statistical materials so that the number of summary balances of major categories of production in oblasts and republics could be raised from 17 to 70-80. The conference

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also pointed out the necessity of strengthening the role of regional planning commissions and recommended that krai and oblast councils and councils of ministers of autonomous republics be permitted to work out summary plans for the development of locally subordinated production. Clearly the price of improving regional planning, as suggested by the conference proposals, would be a considerable expansion in the work of planning organizations.

The recommendations made at the conference are not altogether new, but the impressive collection of conferees lends new weight to the proposals and increases their chances of adoption. The proposals do not augur of spectacular solutions to the problems considered, but even modest gains in the precision of industrial indicators could improve the success criteria which are essential to the operation of recent worker and managerial incentive measures and could hasten the introduction of newer techniques in planning. Furthermore, any improvement in the continuity of plans or in the integration of industrial activity in regional planning might free enterprise managers of some of the material and equipment supply problems which have diverted attention from other managerial duties since the 1957 industrial reorganization.

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